GreenStone Farm Credit Services, ACA

Quarterly Report
March 31, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of GreenStone Farm Credit Services, ACA and its subsidiaries GreenStone Farm Credit Services, FLCA and GreenStone Farm Credit Services, PCA. This discussion should be read in conjunction with both the unaudited consolidated financial information and related notes included in this Quarterly Report as well as Management's Discussion and Analysis included in our Annual Report for the year ended December 31, 2016 (2016 Annual Report).

Due to the nature of our financial relationship with AgriBank, FCB (AgriBank), the financial condition and results of operations of AgriBank materially impact our members' investment. To request free copies of the AgriBank or the AgriBank District financial reports or additional copies of our report, contact us at:

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FORWARD-LOOKING INFORMATION

Any forward-looking statements in this Quarterly Report are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in our 2016 Annual Report. We undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

AGRICULTURAL AND ECONOMIC CONDITIONS

The United States (U.S.) Department of Commerce released its third estimate showing that real gross domestic product (GDP) increased at an annual rate of 2.1% in the fourth quarter of 2016. This compares to an increase in real GDP of 3.5% in the third quarter. As we turn to the first quarter of 2017, economic growth once again looks a bit soft to start the year. Government spending has been slowing, and personal consumption looks likely to slow from the pace seen in the past few quarters. On a positive note, residential construction has been aided by warm weather, and business fixed investment looks likely to continue its gradual recovery. Trade could weigh on growth and inventories may not contribute as they have of late.

Total U.S. nonfarm payroll employment increased by 235,000 in February, and the unemployment rate was little changed at 4.7%. Michigan's economy continued to improve as a broad range of sectors expanded in 2016. Michigan added the most manufacturing jobs of any state in 2016, mostly by strength in U.S. auto sales, while most manufacturing segments were weighed down by soft global growth, the commodity downturn, and high inventories. The seasonally-adjusted unemployment rate in Michigan bottomed out during 2016 at 4.8%, and has increased slightly to 5.3% as of February 2017. Wisconsin's economy also continues to improve. Payroll growth slowed modestly in 2016, though Wisconsin fared better than neighboring states. Payrolls increased 1.1% in 2016, or by 32,200 jobs, with most key sectors posting gains. Job growth pushed the unemployment rate to a 15-year low of 3.9% as of February 2017, and the labor force participation rate edged higher.

Housing starts posted a stronger than expected 3.0% rise in February to a seasonally-adjusted annual rate of 1.3 million, with all of the increase coming in single-family starts. Milder weather across much of the country allowed for more work to begin this February relative to past winters, which likely bolstered the seasonally-adjusted figures. Single-family construction posted its largest monthly gains in the Midwest and Northeast, rising 20.0% and 16.7%, respectively. Single-family homebuilding usually goes dormant throughout these regions during the winter months but has held up better this year due to milder winter weather.

The Federal Open Market Committee (FOMC) raised the fed funds rate target 0.25% at its meeting on March 15, 2017 to a range of 0.75% to 1.0%. The FOMC "dot plot" survey suggests that two more interest rate increases are possible in 2017.

According to the United States Department of Agriculture's (USDA) Economic Research Service, net farm income is forecast lower in 2017, for a fourth consecutive year of decline. U.S. net farm income is forecast at $62.3 billion in 2017, a drop of $6.0 billion (-8.7%) from 2016's level. This represents the lowest net farm income forecast since 2002 in both nominal and inflation-adjusted dollars. Measured in cash terms, net cash income in 2017 is projected up slightly at $93.5 billion (+1.8%) from the previous year. Since the record highs of 2013, net farm income and net cash income have fallen by 50% and 31%, respectively.

Production expenses for 2017 for the U.S. agricultural sector are projected to be unchanged following two years of decline. Multi-year reductions in farm production expenses are relatively rare – it happened last from 1984 to 1986. Changes in input prices typically lag commodity price changes. For some farms, rented farmland continues to be an important component of farm operating expenses. Average cash rental rates in 2016 still reflect the high prices and large net returns of the preceding several years and have yet to decline substantially.

Oil prices are expected to trend slightly upward in 2017. The U.S. Energy Information Administration adjusted its forecast of Brent crude spot price up to $55 per barrel for 2017, which is slightly above annual average prices in 2015 and 2016. However, 2017 prices remain low when compared to 2010-14, when they often exceeded $100 per barrel. Comparatively lower prices will continue to provide farmers, manufacturers, fertilizer producers, and farm product exports a more affordable environment.

The National Agricultural Statistics Service Prospective Plantings report indicates 2017 corn planting intentions at 90.0 million acres, down 4.0% or 4.0 million acres from last year. In contrast, U.S. soybean planted area for 2017 is estimated at a record high of 89.5 million acres, up 7.0% from last year. Wheat acres are estimated to be down 8.0% in 2017 to 46.1 million acres. This represents the lowest total planted area for wheat in the U.S. since tracking began in 1919. Michigan corn area plantings are projected to decline by 4.2% to 2.3 million acres, while Wisconsin corn area plantings are estimated to decline by 1.2% to 4.0 million acres. Michigan and Wisconsin soybean area plantings are expected to rise substantially by 13.5% and 9.7%, respectively.

The outlook for protein and dairy prices in 2017 is mixed. Hog prices increased during the first quarter to more than 13.0% above year-ago levels, but large hog supplies are likely to pressure prices later in the year. The turkey industry's production growth in the latter half of 2016 and early 2017 has put downward pressure on prices. Turkey prices are forecast to average below 2016 in all quarters of 2017. The U.S. egg production is forecasted to increase further in 2017. The 2017 price forecast is 88-93 cents per dozen in 2017. This is slightly favorable to $0.86 per dozen in 2016.

In March, the USDA and Animal and Plant Health Inspection Services (APHIS) confirmed the presence of HPAI in a commercial chicken breeder flock in Tennessee. This is the first confirmed case of HPAI in commercial poultry in the U.S. this year. The property was quarantined and quickly depopulated to prevent the spread of the disease to other poultry flocks. In response to the news of HPAI, some countries have placed a ban on imports of U.S. poultry and egg products while some of these only impacted the regions where HPAI was detected. According to USDA Economic Research Service, the U.S. exports about 18.0% of its annual poultry production, making exports a very important market for its product. It will be important for the poultry industry to avoid further outbreaks of HPAI in 2017 and keep all export markets open.

U.S. milk cow numbers are forecast to increase to 9.4 million head in 2017. Milk per cow is forecast at 23,185 pounds for the year. With increases in the whey price more than offsetting decreases in the cheese price, the Class III price forecast is raised to $16.20-$16.80 for the year. The all-milk price forecast for 2017 is $17.80-$18.40 per cwt. This compares to an average all-milk price of $16.24 per cwt in 2016.

In summary, the U.S. agriculture sector will continue to face many headwinds in 2017. The strengthening of the U.S. dollar, declining commodity prices, and unaccommodating reduction in expenses, combined with future expected interest rate increases have the potential to put further pressure on the U.S. agriculture industry in 2017 and beyond.

LOAN PORTFOLIO

Loan Portfolio

Owned loan volume totaled $7.8 billion at March 31, 2017, a $6.1 million decrease from December 31, 2016.

Total owned and managed loan volume, including serviced volume on the real estate loans sold to AgriBank was $8.0 billion at March 31, 2017, a $16.8 million decrease from December 31, 2016. Our combined mortgage portfolio increased $62.4 million, or 1.1% from December 31, 2016, while our short-term commercial loan portfolio decreased $79.2 million, or 3.8% from December 31, 2016. When compared to March 2016, owned and managed mortgage volume is up 8.3% and commercial loan volume is up 0.8%. These increases were driven by growth in all market segments and led by our capital markets and commercial lending segments that have increased 11.4% and 13.7% since March 31, 2016, respectively. Our current volume reflects an asset growth rate year over year that supports our 2017 Business Plan.

Portfolio Credit Quality

The credit quality of our loan portfolio remained solid during the first quarter of 2017. Acceptable loan credit quality, as measured under the Uniform Classification System, was 95.3% after beginning the year at 95.4%. Year over year, acceptable credit quality decreased 0.9% from 96.2% at March 31, 2016. Portfolio assets criticized as being less than acceptable are comprised of 2.3% other assets especially mentioned (OAEM) and 2.4% adversely classified. OAEM decreased slightly while adversely classified increased slightly from December 31, 2016.

Adversely classified loans are identified as having material credit weaknesses which, if left uncorrected, result in a greater than normal risk. Portfolio credit quality is considered when assessing the reasonableness of our allowance for loan losses. Weaker borrowers in our greenhouse/nursery, part-time farmer, general crop, and dairy farm portfolios were challenged financially during the first quarter of 2017.

The resulting level of credit quality, when combined with our earnings and addition to capital surplus, results in an adverse asset to risk funds ratio of 13.4%. This ratio increased from 10.8% at December 31, 2016 but remains sound. This ratio is a good measure of our risk-bearing ability.

In certain circumstances, government guarantee programs are used to reduce the risk of loss. At March 31, 2017, $282.4 million of our loans were, to some level, guaranteed under these programs.

Risk Assets

Components of Risk Assets

(dollars in thousands) As of:	**March 31 2017**	December 31 2016
Loans:		
Nonaccrual	**$46,256**	$46,522
Accruing restructured	**3,356**	3,374
Accruing loans 90 days or more past due	**494**	65
Total risk loans	**50,106**	49,961
Acquired property	**2,398**	1,583
Total risk assets	**$52,504**	$51,544
Total risk loans as a percentage of total loans	**0.6%**	0.6%
Nonaccrual loans as a percentage of total loans	**0.6%**	0.6%
Current nonaccrual loans as a percentage of total nonaccrual loans	**82.7%**	76.5%
Total delinquencies as a percentage of total loans	**0.4%**	0.4%

Note: Accruing loans include accrued interest receivable.

Our risk assets have increased slightly from December 31, 2016 but remain at acceptable levels. Total risk loans as a percentage of total loans remains well within our established risk management guidelines.

Nonaccrual loans remained at an acceptable level at March 31, 2017 as they decreased from $46.5 million at December 31, 2016 to $46.3 million. As of March 31, 2017, approximately 43% of the nonaccrual loan portfolio was comprised of greenhouse/nursery loans, 18% general crop and livestock farms, 13% dairy farms, and 12% part-time farmers.

Our accounting policy requires accruing loans past due 90 days to be transferred into nonaccrual status unless adequately secured and in the process of collection. Based on our analysis, all loans 90 days or more past due and still accruing interest were eligible to remain in accruing status.

Allowance for Loan Losses

The allowance for loan losses is an estimate of losses on loans in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as loan loss history, estimated probability of default, estimated loss severity, portfolio quality, and current economic and environmental conditions.

Allowance Coverage Ratios As of:	**March 31 2017**	December 31 2016
Allowance as a percentage of:		
Loans	**0.6%**	0.6%
Nonaccrual loans	**107.2%**	99.7%
Total risk loans	**99.0%**	92.8%

The allowance for loan losses increased $3.2 million from December 31, 2016 to March 31, 2017. During the first quarter of 2017, a provision for loan losses of $995 thousand was recorded primarily due to downward credit quality trends in the cash grain and dairy portfolios as a result of continued price declines. The loan loss provision for the quarter was also impacted by $2.2 million of net recoveries, which included a $2.1 million recovery from a large capital markets relationship.

Under certain circumstances, credit losses may be recorded to establish a reserve on unfunded loan commitments. The “(Reversal of) provision for credit losses” in the Consolidated Statements of Income for the three months ended March 31, 2017 included a reversal of credit losses on unfunded loan commitments of $1.8 million. The accrued credit losses are recorded in “other liabilities” in the Consolidated Statements of Condition. The accrued credit losses related to unfunded loan commitments were $1.2 million and $3.0 million as of March 31, 2017 and December 31, 2016, respectively.

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at March 31, 2017.

RESULTS OF OPERATIONS

Profitability Information (dollars in thousands) For the three months ended March 31	**2017**	2016
Net income	**$38,047**	$34,042
Return on average assets	**1.9%**	1.8%
Return on average members' equity	**10.3%**	9.8%

Changes in the chart above relate directly to:

- Changes in income discussed below
- Changes in assets discussed in the Loan Portfolio section
- Changes in capital discussed in the Funding, Liquidity, and Capital section

Changes in Significant Components of Net Income (in thousands) For the three months ended March 31	**2017**	2016	**Increase (decrease) in net income**
Net interest income	**$49,610**	$47,474	**$2,136**
Reversal of (provision for) credit losses	**802**	(1,936)	**2,738**
Patronage income	**7,106**	4,946	**2,160**
Financially related services income	**2,539**	2,497	**42**
Fee income	**3,185**	2,970	**215**
Acquired property loss, net	**(12)**	(42)	**30**
Miscellaneous income, net	**358**	897	**(539)**
Operating expenses	**(22,808)**	(22,068)	**(740)**
(Provision for) benefit from income taxes	**(2,733)**	(696)	**(2,037)**
Net income	**$38,047**	$34,042	**$4,005**

Changes in Net Interest Income (in thousands) For the three months ended March 31	**2017 vs 2016**
Changes in volume	**$3,413**
Changes in interest rates	**(1,370)**
Changes in nonaccrual income and other	**93**
Net change	**$2,136**

The change in reversal of (provision for) credit losses of $2.7 million for the first three months of 2017 compared to the prior year was primarily due to a recovery of a large capital markets relationship partially offset by an increased allowance placed on cash grain and dairy portfolios.

We receive patronage income from AgriBank primarily based on the average balance of our note payable to AgriBank. In 2016, AgriBank paid a patronage rate of 25.6 basis points. The rate increased to 33.2 basis points as of March 31, 2017.

The increase in provision for income taxes was primarily related to higher taxable income on the taxable ACA entity.

FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable matured on January 31, 2017 and was renewed with an effective date of January 1, 2017 for $8.0 billion with a maturity date of December 31, 2019. The note will be renegotiated at that time. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio which significantly reduces our market interest rate risk. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from unallocated surplus.

The components of cost of funds associated with our note payable include:

- A marginal cost of debt component
- A spread component, which includes cost of servicing, cost of liquidity, and bank profit
- A risk premium component, if applicable

We were not subject to a risk premium at March 31, 2017 or December 31, 2016.

Total members’ equity increased $29.7 million from December 31, 2016 primarily due to net income for the period partially offset by patronage distribution accruals.

Farm Credit Administration regulations require us to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations.

The capital adequacy ratios are directly impacted by the changes in capital as more fully explained in this section and the changes in assets as discussed in the Loan Portfolio section. Refer to Note 5 of the accompanying Consolidated Financial Statements for additional detail regarding the capital ratios effective as of March 31, 2017. Refer to Note 8 in our 2016 Annual Report for a more complete description of the ratios effective as of December 31, 2016.

CERTIFICATION

The undersigned have reviewed the March 31, 2017 Quarterly Report of GreenStone Farm Credit Services, ACA, which has been prepared under the oversight of the Audit Committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Edward L. Reed
Chair of the Board
GreenStone Farm Credit Services, ACA

David B. Armstrong
Chief Executive Officer
GreenStone Farm Credit Services, ACA

Travis D. Jones
Executive Vice President – Chief Financial Officer
GreenStone Farm Credit Services, ACA

May 5, 2017

CONSOLIDATED STATEMENTS OF CONDITION

GreenStone Farm Credit Services, ACA
(in thousands)
(Unaudited)

As of:	**March 31 2017**	December 31 2016
ASSETS		
Loans	**$7,795,410**	$7,801,558
Allowance for loan losses	**49,606**	46,382
Net loans	**7,745,804**	7,755,176
Investment in AgriBank, FCB	**161,876**	159,936
Investment securities	**15,878**	16,749
Accrued interest receivable	**46,859**	54,054
Premises and equipment, net	**43,690**	41,740
Acquired property	**2,398**	1,583
Deferred tax assets, net	**4,306**	5,279
Other assets	**40,272**	44,712
Total assets	**$8,061,083**	$8,079,229
LIABILITIES		
Note payable to AgriBank, FCB	**$6,485,767**	$6,506,325
Accrued interest payable	**30,313**	27,164
Patronage distribution payable	**8,400**	32,979
Other liabilities	**38,594**	44,428
Total liabilities	**6,563,074**	6,610,896
Contingencies and commitments (Note 6)		
MEMBERS' EQUITY		
Protected members' equity	**1**	1
Capital stock and participation certificates	**21,709**	21,693
Unallocated surplus	**1,476,299**	1,446,639
Total members' equity	**1,498,009**	1,468,333
Total liabilities and members' equity	**$8,061,083**	$8,079,229

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

GreenStone Farm Credit Services, ACA
(in thousands)
(Unaudited)

	Three Months Ended	
For the period ended March 31	**2017**	2016
Interest income	**$79,923**	$73,559
Interest expense	**30,313**	26,085
Net interest income	**49,610**	47,474
(Reversal of) provision for credit losses	**(802)**	1,936
Net interest income after (reversal of) provision for credit losses	**50,412**	45,538
Non-interest income		
Patronage income	**7,106**	4,946
Financially related services income	**2,539**	2,497
Fee income	**3,185**	2,970
Acquired property loss, net	**(12)**	(42)
Miscellaneous income, net	**358**	897
Total non-interest income	**13,176**	11,268
Operating expenses		
Salaries and employee benefits	**14,429**	13,931
Other operating expenses	**8,379**	8,137
Total operating expenses	**22,808**	22,068
Income before income taxes	**40,780**	34,738
Provision for income taxes	**2,733**	696
Net income	**$38,047**	$34,042

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

GreenStone Farm Credit Services, ACA
(in thousands)
(Unaudited)

	Protected Members' Equity	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
Balance at December 31, 2015	$2	$21,436	$1,347,685	$1,369,123
Net income	--	--	34,042	34,042
Unallocated surplus designated for patronage distributions	--	--	(7,612)	(7,612)
Capital stock and participation certificates issued	--	370	--	370
Capital stock and participation certificates retired	--	(376)	--	(376)
Balance at March 31, 2016	$2	$21,430	$1,374,115	$1,395,547
Balance at December 31, 2016	$1	$21,693	$1,446,639	$1,468,333
Net income	**--**	**--**	**38,047**	**38,047**
Unallocated surplus designated for patronage distributions	**--**	**--**	**(8,387)**	**(8,387)**
Capital stock and participation certificates issued	**--**	**425**	**--**	**425**
Capital stock and participation certificates retired	**--**	**(409)**	**--**	**(409)**
Balance at March 31, 2017	**$1**	**$21,709**	**$1,476,299**	**$1,498,009**

The accompanying notes are an integral part of these Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements contain all adjustments necessary for a fair presentation of the interim consolidated financial condition and consolidated results of operations. While our accounting policies conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and the prevailing practices within the financial services industry, this interim Quarterly Report is prepared based upon statutory and regulatory requirements and, accordingly, does not include all disclosures required by U.S. GAAP. The results of the three months ended March 31, 2017 are not necessarily indicative of the results to be expected for the year ending December 31, 2017. The interim financial statements and the related notes in this Quarterly Report should be read in conjunction with the Consolidated Financial Statements and related notes included in our Annual Report for the year ended December 31, 2016 (2016 Annual Report).

The Consolidated Financial Statements present the consolidated financial results of GreenStone Farm Credit Services, ACA and its subsidiaries GreenStone Farm Credit Services, FLCA and GreenStone Farm Credit Services, PCA (the subsidiaries). All material intercompany transactions and balances have been eliminated in consolidation.

Recently Issued or Adopted Accounting Pronouncements

We have assessed the potential impact of accounting standards that have been issued by the Financial Accounting Standards Board (FASB) and have determined the following standards to be applicable to our business:

Standard	Description	Effective date and financial statement impact
In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13 “Financial Instruments – Credit Losses.”	The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses.	The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2020 and interim periods within annual periods beginning after December 15, 2021. Early adoption is permitted as of annual reporting periods beginning after December 15, 2018, including interim periods within those annual periods. We are currently evaluating the impact of the guidance on our financial condition, results of operations, cash flows, and financial statement disclosures.
In February 2016, the FASB issued ASU 2016-02 “Leases.”	The guidance modifies the recognition and accounting for lessees and lessors and requires expanded disclosures regarding assumptions used to recognize revenue and expenses related to leases.	The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2019 and interim periods the subsequent year. Early adoption is permitted and modified retrospective adoption is required. We are currently evaluating the impact of the guidance on our financial condition, results of operations, cash flows, and financial statement disclosures.
In January 2016, the FASB issued ASU 2016-01 “Recognition and Measurement of Financial Assets and Financial Liabilities.”	The guidance is intended to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The amendments address certain aspects of recognition, measurement, presentation, and disclosure of financial statements.	The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2018 and interim periods with annual periods beginning after December 15, 2019. Certain disclosure changes are permitted to be immediately adopted for annual reporting periods that have not yet been made available for issuance. Nonpublic entities are no longer required to include certain fair value of financial instruments disclosures as part of these disclosure changes. We have immediately adopted this guidance and have excluded such disclosures from our Notes to Consolidated Financial Statements. Early adoption is permitted for interim and annual reporting periods beginning after December 15, 2017 for other applicable sections of the guidance. We are currently evaluating the impact of the remaining guidance on our financial condition, results of operations, cash flows, and financial statement disclosures.

Standard	Description	Effective date and financial statement impact
In May 2014, the FASB issued ASU 2014-09 "Revenue from Contracts with Customers."	The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance.	The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2017 and interim periods within annual periods beginning after December 15, 2018. In March 2016, the FASB issued ASUs 2016-08 and 2016-10 which provided further clarifying guidance on the previously issued standard. We are in the process of reviewing contracts to determine the effect, if any, on our financial condition and results of operations.

NOTE 2: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type
(dollars in thousands)

As of:	**March 31, 2017**		December 31, 2016	
	Amount	**Percentage**	Amount	Percentage
Real estate mortgage	**$4,667,010**	**59.9%**	$4,612,265	59.1%
Production and intermediate term	**1,911,890**	**24.5**	2,039,670	26.1
Agribusiness	**895,959**	**11.5**	842,667	10.8
Other	**320,551**	**4.1**	306,956	4.0
Total	**$7,795,410**	**100.0%**	$7,801,558	100.0%

The other category is primarily comprised of rural residential real estate and communication related loans, as well as loans originated under the mission related investment authority.

Delinquency

Aging Analysis of Loans (in thousands) **As of March 31, 2017**	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total	90 Days or More Past Due and Accruing
Real estate mortgage	**$10,065**	**$2,582**	**$12,647**	**$4,682,257**	**$4,694,904**	**$370**
Production and intermediate term	**12,693**	**2,331**	**15,024**	**1,912,401**	**1,927,425**	**124**
Agribusiness	**--**	**--**	**--**	**898,437**	**898,437**	**--**
Other	**1,628**	**941**	**2,569**	**318,575**	**321,144**	**--**
Total	**$24,386**	**$5,854**	**$30,240**	**$7,811,670**	**$7,841,910**	**$494**

As of December 31, 2016	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total	90 Days or More Past Due and Accruing
Real estate mortgage	$14,447	$3,890	$18,337	$4,624,963	$4,643,300	$ --
Production and intermediate term	5,612	2,374	7,986	2,051,332	2,059,318	65
Agribusiness	--	--	--	845,001	845,001	--
Other	2,518	444	2,962	304,672	307,634	--
Total	$22,577	$6,708	$29,285	$7,825,968	$7,855,253	$65

Note: Accruing loans include accrued interest receivable.

Risk Loans

Risk loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms.

Risk Loan Information (in thousands) As of:	**March 31** **2017**	December 31 2016
Volume with specific allowance	**$26,884**	$25,850
Volume without specific allowance	**23,222**	24,111
Total risk loans	**$50,106**	$49,961
Total specific allowance	**$12,587**	$11,355
For the three months ended March 31	**2017**	2016
Income on accrual risk loans	**$56**	$44
Income on nonaccrual loans	**457**	291
Total income on risk loans	**$513**	$335
Average risk loans	**$51,139**	$46,611

Note: Accruing loans include accrued interest receivable.

We had two relationships in which we had commitments to lend additional money whose loans were at risk at March 31, 2017. The balance of the unfunded loan commitments were $1.2 million and $3.0 million as of March 31, 2017 and December 31, 2016, respectively.

Troubled Debt Restructurings (TDRs)

In situations where, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession for other than an insignificant period of time to the borrower that we would not otherwise consider, the related loan is classified as a troubled debt restructuring, also known as a restructured loan. A concession is generally granted in order to minimize economic loss and avoid foreclosure. Concessions vary by program and borrower and may include interest rate reductions, term extensions, payment deferrals, or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. Loans classified as TDRs are considered risk loans. All risk loans are analyzed within our allowance for loan losses. We record a specific allowance to reduce the carrying amount of the restructured loan to the lower of book value or net realizable value of collateral.

TDR Activity (in thousands) Three months ended March 31	**2017**		2016	
	Pre-modification	**Post-modification**	Pre-modification	Post-modification
Real estate mortgage	**$53**	**$47**	$207	$209
Production and intermediate term	**72**	**72**	--	--
Other	**--**	**--**	28	20
Total	**$125**	**$119**	$235	$229

Pre-modification represents the outstanding recorded investment of the loan just prior to restructuring and post-modification represents the outstanding recorded investment of the loan immediately following the restructuring. The recorded investment of the loan is the unpaid principal amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, and acquisition costs and may also reflect a previous direct charge-off.

The primary type of modification was extension of maturity.

We had TDRs in the production and intermediate term loan category of $49 thousand that defaulted during the three months ended March 31, 2016 in which the modifications were within twelve months of the respective reporting period. There were no TDRs that defaulted during the three months ended March 31, 2017 in which the modifications were within twelve months of the respective reporting period.

TDRs Outstanding (in thousands) As of:	**March 31** **2017**	December 31 2016
Accrual status:		
Real estate mortgage	**$2,684**	$2,706
Production and intermediate term	**509**	506
Other	**163**	162
Total TDRs in accrual status	**$3,356**	$3,374
Nonaccrual status:		
Real estate mortgage	**$1,006**	$972
Production and intermediate term	**301**	252
Other	**249**	263
Total TDRs in nonaccrual status	**$1,556**	$1,487
Total TDRs:		
Real estate mortgage	**$3,690**	$3,678
Production and intermediate term	**810**	758
Other	**412**	425
Total TDRs	**$4,912**	$4,861

There were no material commitments to lend to borrowers whose loans have been modified in a TDR at March 31, 2017.

Allowance for Loan Losses

Changes for Allowance for Loan Losses (in thousands) Three months ended March 31	**2017**	2016
Balance at beginning of period	**$46,382**	$34,290
Provision for loan losses	**995**	3,406
Loan recoveries	**2,419**	137
Loan charge-offs	**(190)**	(247)
Balance at end of period	**$49,606**	$37,586

The “(Reversal of) provision for credit losses” in the Consolidated Statements of Income includes a provision for loan losses as presented in the previous chart, as well as a reversal of credit losses on unfunded commitments as presented in the chart below. The accrued credit losses on unfunded commitments are recorded in “Other liabilities” in the Consolidated Statements of Condition.

Credit Loss Information on Unfunded Commitments (in thousands) For the three months ended March 31	**2017**	2016
Reversal of credit losses	**($1,797)**	($1,470)
As of:	**March 31** **2017**	December 31 2016
Accrued credit losses	**$1,164**	$2,960

The allowance for loan losses increased $3.2 million from December 31, 2016 to March 31, 2017. During the first quarter of 2017, a provision for loan losses of $995 thousand was recorded primarily due to downward credit quality trends in the cash grain and dairy portfolios as a result of continued price declines. The loan provision for the quarter was also impacted by $2.2 million of net recoveries, which included a $2.1 million recovery from a large capital markets relationship.

Under certain circumstances, credit losses may be recorded to establish a reserve on unfunded loan commitments. The “(Reversal of) provision for credit losses” in the Consolidated Statements of Income for the three months ended March 31, 2017 included a reversal of credit losses on unfunded loan commitments of $1.8 million. The accrued credit losses are recorded in “other liabilities” in the Consolidated Statements of Condition. The accrued credit losses related to unfunded loan commitments were $1.2 million and $3.0 million as of March 31, 2017 and December 31, 2016, respectively.

NOTE 3: INVESTMENT IN AGRIBANK, FCB

Effective January 1, 2017, we were required by AgriBank to maintain an investment equal to 2.25% of the average quarterly balance of our note payable, with an additional amount required on growth in excess of a sustainable growth rate. Previously, the required investment was equal to 2.25% of the average quarterly balance of our note payable to AgriBank plus an additional 1.0% on growth that exceeded a targeted rate.

The balance of our investment in AgriBank, all required stock, was $161.9 million at March 31, 2017 and $159.9 million at December 31, 2016.

NOTE 4: INVESTMENT SECURITIES

We held investment securities of $15.9 million at March 31, 2017 and $16.7 million at December 31, 2016. Our investment securities consisted of securities containing loans fully guaranteed by the Small Business Administration. The investment securities have been classified as held-to-maturity. The investment portfolio is evaluated for other-than-temporary impairment. To date, we have not recognized any impairment on our investment portfolio.

Additional Investment Securities Information

(dollars in thousands) As of:	**March 31 2017**	December 31 2016
Amortized cost	**$15,878**	$16,749
Unrealized gains	**742**	787
Fair value	**$16,620**	$17,536
Weighted average yield	**2.8%**	1.8%

Investment income is recorded in “Interest income” in the Consolidated Statements of Income and totaled $116 thousand and $82 thousand for the three months ended March 31, 2017 and 2016, respectively.

NOTE 5: MEMBERS’ EQUITY

Regulatory Capitalization Requirements

Select Capital Ratios

	As of March 31, 2017	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:				
Common equity tier 1 ratio	**15.7%**	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**15.7%**	6.0%	2.5%*	8.5%
Total capital ratio	**16.3%**	8.0%	2.5%*	10.5%
Permanent capital ratio	**15.8%**	7.0%	--	7.0%
Non-risk-adjusted:				
Tier 1 leverage ratio	**16.8%**	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**17.6%**	1.5%	--	1.5%

*The 2.5% capital conservation buffer over risk-adjusted ratio minimums will be phased in over three years under the FCA capital requirements.

Effective January 1, 2017, the regulatory capital requirements for Farm Credit System Banks and associations were modified. The new regulations replaced existing core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added a tier 1 leverage ratio and an unallocated retained earnings and equivalents (UREE) leverage ratio. The permanent capital ratio continues to remain in effect.

Risk-adjusted assets have been defined by Farm Credit Administration (FCA) Regulations as the Statement of Condition assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets. The primary changes, which generally have the impact of increasing risk-adjusted assets (decreasing risk-based regulatory capital ratios) were as follows:

- Inclusion of off-balance-sheet commitments with terms at origination of less than 14 months
- Increased risk-weighting of most loans 90 days past due or in nonaccrual status

Risk-adjusted assets is calculated differently for the permanent capital ratio (referred herein as PCR risk-adjusted assets) compared to the other risk-based capital ratios. The primary difference is the inclusion of the allowance for loan losses as a deduction to risk-adjusted assets for the permanent capital ratio.

These ratios are based on a three-month average daily balance in accordance with FCA Regulations and are calculated as follows:

- Common equity tier 1 ratio is statutory minimum purchased member stock, other required member stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to retirement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System institutions, and the amount of purchased investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Tier 1 capital ratio is common equity tier 1 plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- Total capital is tier 1 capital plus other required member stock held for a minimum of 5 years, allocated equities held for a minimum of 5 years, subordinated debt, and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance for loan losses and reserve for credit losses subject to certain limitations, less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.

- Permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt, and preferred stock subject to certain limitations, less certain allocated and purchased investments in other System institutions divided by PCR risk-adjusted assets.
- Tier 1 leverage ratio is tier 1 capital, including regulatory deductions, divided by average assets less regulatory deductions subject to tier 1 capital.
- UREE leverage ratio is unallocated retained earnings, paid-in capital, allocated surplus not subject to retirement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions subject to tier 1 capital.

If the capital ratios fall below the total requirements, including the buffer amounts, capital distributions (equity redemptions, dividends, and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval.

Effective January 1, 2017, the regulatory capital requirements allow for allotment agreements for only the permanent capital ratio and, as such, any stock in excess of our AgriBank required investment was not included in the common equity tier 1, tier 1 capital, total capital, or leverage ratios. We had no allocated excess stock at March 31, 2017 or December 31, 2016.

Refer to Note 8 in our 2016 Annual Report for a more complete description of the ratios effective as of December 31, 2016.

NOTE 6: CONTINGENCIES AND COMMITMENTS

In the normal course of business, we have various contingent liabilities and commitments outstanding, primarily commitments to extend credit, which may not be reflected in the Consolidated Financial Statements. We do not anticipate any material losses because of these contingencies or commitments.

We may be named as a defendant in certain lawsuits or legal actions in the normal course of business. At the date of these Consolidated Financial Statements, our management team was not aware of any material actions. However, management cannot ensure that such actions or other contingencies will not arise in the future.

NOTE 7: FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with three levels of inputs that may be used to measure fair value. Refer to Note 2 in our 2016 Annual Report for a more complete description of the three input levels.

We did not have any assets or liabilities measured at fair value on a recurring basis at March 31, 2017 or December 31, 2016.

Non-Recurring Basis

We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis.

Assets Measured at Fair Value on a Non-recurring Basis
(in thousands)

	As of March 31, 2017				Three months ended March 31, 2017
	Fair Value Measurement Using			Total Fair	Total (Losses)
	Level 1	Level 2	Level 3	Value	Gains
Impaired loans	**$ --**	**$6,149**	**$8,862**	**$15,011**	**($1,422)**
Acquired property	**--**	**5,570**	**--**	**5,570**	**37**

	As of December 31, 2016				Three months ended March 31, 2016
	Fair Value Measurement Using			Total Fair	
	Level 1	Level 2	Level 3	Value	Total Losses
Impaired loans	$ --	$6,999	$8,221	$15,220	($1,866)
Acquired property	--	4,360	--	4,360	(99)

Valuation Techniques

Impaired loans: Represents the carrying amount and related write-downs of loans which were evaluated for individual impairment based on the appraised value of the underlying collateral. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. If the process uses independent appraisals and other market-based information, they are classified as Level 2. If the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters, they are classified as Level 3.

Acquired Property: Represents the fair value and related losses of foreclosed assets that were measured at fair value based on the collateral value, which is generally determined using appraisals, or other indications based on sales of similar properties. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. If the process uses independent appraisals and other market-based information, they are classified as

Level 2. If the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the property and other matters, they are classified as Level 3.

NOTE 8: SUBSEQUENT EVENTS

We have evaluated subsequent events through May 5, 2017, which is the date the Consolidated Financial Statements were available to be issued. There have been no material subsequent events that would require recognition in our Quarterly Report or disclosure in the Notes to Consolidated Financial Statements.